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TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 INT-05 H-02 AGR-05 AGRE-00 NSC-05 SS-15 STR-04

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AMEMBASSY COPENHAGEN

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AMEMBASSY WELLINGTON

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E.O. 11652:GDS

TAGS: UNDP, EAID

SUBJECT: UNDP: U.S. PROPOSAL TO BUY ACCUMULATED NON-
CONVERTIBLE CURRENCIES

REF: (A) STATE 179843; (B) STATE 162525 (NOTAL)

1. SUMMARY: ONE OF THE KEY FACTORS IN THE FINANCIAL CRISIS OF THE UNITED NATIONS DEVELOPMENT PROGRAM (UNDP), HAS BEEN THE PAST AND CONTINUING ACCUMULATION OF NON-CONVERTIBLE CURRENCIES, PRIMARILY FROM THE SOVIET UNION AND OTHER SOVIET BLOC COUNTRIES. THE UNITED STATES HAS TAKEN MAJOR STEPS TO DEAL WITH THE UNDP FINANCIAL CRISIS, INCLUDING ONE WHICH WOULD HELP WITH THE PROBLEM OF ACCUMULATED NON-CONVERTIBLE CURRENCIES (REFTEL A). OUR SUGGESTED SOLUTION IS TO PURCHASE, BASED UPON OUR NEEDS, NON-CONVERTIBLE CURRENCIES WHICH HAVE ACCUMULATED ON THE BOOKS OF UNDP. IN MAKING OUR PROPOSAL AT THE UNDP GOVERNING COUNCIL JUNE MEETING WE EXPRESSED THE HOPE THAT OTHER DONORS OF HARD CURRENCY TO UNDP WOULD JOIN WITH US IN THIS EFFORT. ACTION POSTS ARE REQUESTED TO APPROACH HOST GOVERNMENTS TO URGE THEM TO AGREE TO MAKE SUCH PURCHASES IN SUPPORT OF OUR EFFORT TO OBTAIN CONSENT OF DONORS OF NON-CONVERTIBLE CURRENCIES. END SUMMARY.

2. AS POSTS ARE AWARE, THE UNITED STATES PUT FORWARD A MAJOR PROPOSAL DURING THE 22ND SESSION OF THE GOVERNING COUNCIL OF THE UN DEVELOPMENT PROGRAM IN WHICH WE OFFERED TO PURCHASE, DEPENDING ON OUR NEEDS, SIGNIFICANT QUANTITIES OF THE NON-CONVERTIBLE CURRENCIES WHICH HAVE ACCUMULATED ON UNDP'S BOOKS. THE PROPOSAL WAS DESIGNED TO RELIEVE UNDP'S LIQUIDITY CRUNCH BY PUTTING THESE IMMOBILIZED ASSETS TO WORK. WE ARE ACTIVELY PROMOTING THIS PROPOSAL AND HAVE MADE APPROACHES TO THE SOVIETS IN MOSCOW AS WELL AS TO SELECTED LDC'S IN THE FIELD IN
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SUPPORT OF IT. AS EXPECTED, SOVIET OFFICIAL REACTION HAS BEEN NEGATIVE. NEVERTHELESS, WE INTEND TO PURSUE THE PROPOSAL AND TO WORK FOR BROAD PARTICIPATION ON BOTH THE PURCHASING SIDE AS WELL AS ON THE PART OF THE DONORS OF THE ACCUMULATED CURRENCIES IN THE EXPECTATION THAT CONTINUED EFFORTS ALONG THIS LINE WILL REQUIRE THE SOVIETS TO ADDRESS THE PROBLEM IN A MORE POSITIVE WAY.

3. BACKGROUND: IN LATE 1975 UNDP SUDDENLY FOUND ITSELF IN SERIOUS FINANCIAL DIFFICULTY DUE TO A LACK OF SUFFICIENT LIQUID ASSETS TO FUND ITS PROJECTS. PROGRAM CUTBACKS OF DOLS 40 MILLION FOR 1976 (FROM DOLS 410 TO DOLS 370 MILLION) WERE REQUIRED. ALTHOUGH THE DETERIORATION IN UNDP'S FINANCES HAS BEEN ARRESTED, THE SITUATION REMAINS PRECARIOUS. ONE OF THE PRINCIPAL CAUSES OF UNDP'S FINANCIAL CRISIS WAS THE PROGRAM'S ACCUMULATION OF CURRENCIES FOR WHICH IT COULD FIND NO USE. THE IMPORTANCE OF THIS FACTOR IN UNDP'S LIQUIDITY CRISIS IS DEMONSTRATED BY THE NEAR EQUIVALENCE OF THE TOTAL OF UNDP'S ESTIMATED HOLDINGS OF ACCUMULATED NON-CONVERTIBLE CURRENCIES AS OF THE END OF 1976 (DOLS 36 MILLION) AND THE LEVEL OF CUTBACKS FORCED ON THE PROGRAM FOR 1976 AS A RESULT OF THE FINANCIAL CRISIS. FURTHERMORE, THE SOVIETS CONTINUE TO RECEIVE MORE IN HARD CURRENCY FROM UNDP FOR GOODS AND SERVICES PROVIDED THAN IS CONTRIBUTED TO THE PROGRAM BY THEM IN RUBLES.

4. TO HELP DEAL WITH UNDP'S FINANCIAL CRISIS THE UNITED STATES TOOK THREE MAJOR STEPS: 1) IT PUSHED FOR STRONGER MANAGEMENT CONTROLS IN UNDP, INCLUDING IMPROVED FINANCIAL PLANNING AND FORECASTING; 2) IT ANNOUNCED AN INCREASE IN ITS CONTRIBUTION TO UNDP FROM DOLS 78 MILLION IN 1975 TO DOLS 100 MILLION IN 1976; 3) FINALLY IT ANNOUNCED AT THE UNDP GOVERNING COUNCIL IN JUNE A U.S. PROPOSAL TO PURCHASE SUBSTANTIAL QUANTITIES OF UNDP'S ACCUMULATED NON-CONVERTIBLE CURRENCIES.

5. WHEN THE UNITED STATES TABLED THE PROPOSAL, HOPE WAS EXPRESSED THAT OTHER DONOR COUNTRIES WHICH GIVE CONVERTIBLE CURRENCY TO THE UNDP WOULD ENDEAVOR TO TAKE SIMILAR STEPS TO REDUCE UNDP'S HOLDINGS OF THESE CURRENCIES. WHILE
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THE GOVERNING COUNCIL WAS IN SESSION SOME OF THESE GOVERNMENTS (HOST GOVERNMENTS OF ALL ACTION POSTS EXCEPT ROME, VIENNA) WERE APPROACHED FOR SUPPORT. HOWEVER IT WAS CLEAR THEN THAT THERE WAS NOT ADEQUATE TIME FOR CAREFUL CONSIDERATION OF OUR PROPOSAL BY THE GOVERNMENTS APPROACHED. NEVERTHELESS, A NUMBER OF INITIAL REACTIONS WERE FAVORABLE. WE NOW WISH TO MAKE FRESH APPROACHES AT ALL ACTION POSTS. ACCORDINGLY, ADDRESSEES ARE REQUESTED TO APPROACH HOST GOVERNMENTS URGING THEM TO AGREE TO PARTICIPATE AS PURCHASERS IN THE PROPOSED PROGRAM TO WHICH THE UNITED STATES ATTACHES GREAT IMPORTANCE.

6. IN DISCUSSIONS POST SHOULD STRESS SELF-INTEREST OF OTHER DONORS PARTICIPATING IN PROGRAM: SUCCESS OF THE

OVERALL UNDERTAKING WOULD INSURE THE LIQUIDITY OF UNDP AND EASE THE BURDEN FOR ALL UNDP DONORS. IN OUR OPINION, WIDELY BASED OFFERS OF PARTICIPATION BY BOTH DEVELOPED COUNTRIES AND DONORS OF NON-CONVERTIBLE CURRENCIES WOULD PUT PRESSURE ON THE SOVIET UNION (AND OTHER BLOC COUNTRIES) EITHER TO ACCEPT OUR OFFER OR, MORE LIKELY, TO TAKE OTHER POSITIVE MEASURES AIMED AT RESOLVING THE PROBLEM OF ACCUMULATED CURRENCIES IN UNDP. THESE STEPS COULD INCLUDE THE SOVIETS INCREASING THE PROPORTION OF THEIR ANNUAL UNDP CONTRIBUTION PRESENTLY PERMITTED TO BE CONVERTED (25 PERCENT) OR LIBERALIZING THEIR EXCHANGE CONTROL MECHANISMS WHICH INHIBIT THE USE OF GOODS AND SERVICES BY UNDP AND ITS EXECUTING AGENCIES. IN ESSENCE, WE ARE CONVINCED THAT AMELIORATION OF THE OVERALL PROBLEM OF NON-CONVERTIBLE CURRENCIES IN UNDP CAN BEST BE BROUGHT ABOUT BY THE ACTIVE PROMOTION OF OUR PROPOSAL.

7. EMBASSY SHOULD ALSO POINT OUT TO HOST GOVERNMENT THAT BROAD PARTICIPATION ON BOTH THE SUPPLY AND DEMAND SIDES WOULD WORK TO INSURE THE PLAN IS NOT VIEWED IN TERMS OF A USSR-US CONFRONTATION, BUT AS A COOPERATIVE MEASURE TO ASSIST THE UNDP PROGRAM IN A PRACTICAL WAY IN THIS TIME OF NEED. IN THIS CONNECTION, POST SHOULD MAKE CLEAR THAT THE PROPOSAL RELATES TO ALL REPEAT ALL THE ACCUMULATED CURRENCIES ON HAND IN UNDP ON DECEMBER 31, 1975, NOT ONLY SOVIET RUBLES. WE HAVE RECEIVED A CONFIDENTIAL

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POSITIVE READING FROM ONE DONOR OF NON-CONVERTIBLE CURRENCY (NEW ZEALAND) AND INTEND TO ENCOURAGE OTHERS. THUS THE INITIAL SOVIET TURNDOWN SHOULD NOT SLOW DOWN OUR EFFORTS.

8. WE BELIEVE THE HOST GOVERNMENTS OF ALL ADDRESSEES COULD MAKE GOOD USE OF ANY NON-CONVERTIBLE CURRENCIES PURCHASED UNDER THIS SCHEME AS THEY HAVE EMBASSIES IN THE COUNTRIES OF ORIGIN OF THE ACCUMULATED CURRENCIES AND COULD USE THEM FOR MEETING LOCAL OPERATING COSTS, ETC. OF THESE DIPLOMATIC POSTS.

9. AT PRESENT WE ARE SEEKING AN INFORMAL COMMITMENT IN SUPPORT OF OUR EFFORTS FROM YOUR HOST GOVERNMENT THAT IT WILL JOIN IN WITH THE UNITED STATES AND OTHERS IN PURCHASING, DEPENDING UPON NEEDS, SUBSTANTIAL QUANTITIES OF THE DOLS 29 MILLION HOLDINGS AS OF DECEMBER 31, 1975. THESE HOLDINGS (DOLLAR EQUIVALENTS) ARE AS FOLLOWS:

- (DOLS THOUSANDS)

ALBANIA

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ALGERIA	187
BULGARIA	552
CHINA	3,669
CUBA	1,268
CZECHOSLOVAKIA	704
DEM. REP. OF GERMANY	1,397
HUNGARY	363
NEW ZEALAND	1,237
POLAND	2,739
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USSR	16,032
YUGOSLAVIA	668
TOTAL	28,901

10. FOR THE HAGUE: EMBASSY SHOULD EXPRESS APPRECIATION FOR THE SUPPORT EXPRESSED BY THE NETHERLANDS GOVERNMENT AS EC PRESIDENCY IN THE GOVERNING COUNCIL (GENEVA 5272) AND AS REPORTED IN THE HAGUE 3618.

11. FOR OSLO: WE APPRECIATE THE FAVORABLE ATTITUDE OF THE GON AS REPORTED IN OSLO 3266 AND HOPE IT WILL BE ABLE TO FOLLOW THROUGH WITH THE REQUESTED COMMITMENT.

12. FOR STOCKHOLM: AS STATED IN STATE 165801, WE CANNOT UNDERSTAND BELFRAGE'S CONTENTION THAT PURCHASING RUBLES UNDER THIS PROGRAM WOULD BE EQUIVALENT TO INCREASING THE SWEDISH CONTRIBUTION TO UNDP. REQUEST YOU CLARIFY THIS MATTER WITH GOS, POINTING OUT THAT THIS PROGRAM COULD BE A SUPPLEMENTARY SOURCE FOR OBTAINING RUBLES TO MEET GOS OBLIGATIONS (EMBASSY OPERATIONS, ETC.) IN USSR WHICH PRESUMABLY WOULD BE MET ONE WAY OR ANOTHER. NO INCREASE IN GOS OUTLAYS WOULD BE ANTICIPATED. ROBINSON

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